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TO: Economic Support Supervisors  
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Training Staff  
Child Care Coordinators  
W-2 Agencies  
Workforce Development Boards  
Job Center Leads and Managers

FROM: Amy Mendel-Clemens  
Technical Assistance, Training & Education  
Section  
Bureau of Eligibility Management  
Division of Health Care Financing

#### BEM/DWS OPERATIONS MEMO

No: 05-53

DATE: 12/22/2005

FS	<input checked="" type="checkbox"/>	MA	<input checked="" type="checkbox"/>	SC	<input type="checkbox"/>
CTS	<input type="checkbox"/>	CC	<input checked="" type="checkbox"/>	W-2	<input checked="" type="checkbox"/>
FSET	<input checked="" type="checkbox"/>	EA	<input type="checkbox"/>	CF	<input checked="" type="checkbox"/>
JAL	<input type="checkbox"/>	JC	<input checked="" type="checkbox"/>	RAP	<input checked="" type="checkbox"/>
WIA	<input checked="" type="checkbox"/>	Other	EP	<input type="checkbox"/>	★

PRIORITY: HIGH

SUBJECT: **EARNED INCOME, HOMESTEAD, AND CHILD TAX CREDITS**

**CROSS REFERENCE:** None

**EFFECTIVE DATE:** January 2, 2006

#### **PURPOSE:**

This memo reminds Wisconsin Works (W-2) Agencies, Economic Support (ES) Agencies, Workforce Development Boards (WDBs) and others of the importance of state and federal Earned Income Tax Credits (EIC/EITC), the state Homestead Credit (HC), and the federal Child Tax Credit as additional income sources for low-income families. Information is provided to update staff so they can encourage eligible participants to apply for these credits and inform them how to obtain free tax return preparation assistance for tax year 2005.

#### **BACKGROUND**

Work program and economic support agencies are reminded to inform their program participants of the availability of tax credits for low income families. Many low income families do not know about or how to apply for these tax credits and are missing out each year on additional income sources that can help support them.

#### **STATE AND FEDERAL EARNED INCOME TAX CREDITS**

The most significant credit for eligible families is the earned income tax credit. The maximum 2005 federal tax credit is \$4,400 and the maximum state tax credit is \$1,892. (See below table).

Working families who also expect to be eligible for the federal EITC in tax year 2006 may be able to receive part of this credit as an advance earned income tax credit in their 2006 paychecks. These workers simply need to fill out a federal W-5 form and give it to their employer for processing at the beginning of CY 2006.

The IRS also has a federal earned income tax credit assistant which has been updated for tax year 2005 at: <http://www.irs.gov/individuals/article/0,,id=130102,00.html>. This on-line worksheet can be used to help taxpayers roughly determine how much EITC they may be able to receive for 2005 before filling out related tax forms. For more detailed information and forms for the federal EITC and advanced federal EITC, please go to: <http://www.irs.gov/individuals/article/0,,id=96406,00.html>.

For more detailed information and forms for the state EIC, click on the "Earned Income Credit" title found under "Tax Benefits" on the DOR individual tax site at: <http://www.dor.state.wi.us/html/indiv.html>.

### ***Summary Table of 2005 Maximum Tax Credits with Income Eligibility Limits***

<b>Number of Qualifying Children</b>	<b>Federal EIC</b>	<b>Wisconsin EIC</b>	<b>EIC Income Limits (state And federal)</b>	<b>Wisconsin Homestead (HC)</b>	<b>WI HC Income Limits</b>	<b>Federal Child Tax Credit*</b>
Zero	Up to \$399	\$0	< \$11,750 < \$13,750 (Married)	Up to \$1,160	\$24,500	\$0
One	Up to \$2,662	Up to \$106	< \$31,030 < \$33,030 (Married)	Up to \$1,160	\$24,500	Up to \$1,000*
Two	Up to \$4,400	Up to \$616	< \$35,263 < \$37,263 (Married)	Up to \$1,160	\$24,500	Up to \$2,000*
Three or More	Up to \$4,400	Up to \$1,892	< \$35,263 < \$37,263 (Married)	Up to \$1,160	\$24,500	Up to \$1,000* per child

\* An additional Federal child care tax credit may be possible for certain Hurricane Katrina victims. See information and links below under "Federal Child Tax Credit" heading.

**STATE HOMESTEAD CREDIT**

A homestead credit (HC) may also be available for eligible low income Wisconsin residents who rent or own their home and have a household income of \$24,500, or less.

The Wisconsin Department of Revenue (DOR) has a simpler H-EZ form 2005 that many taxpayers can use to make filing easier. However, a landlord signed rent certificate or a property tax bill (if owned) is still required. More detailed information and forms for the Wisconsin HC can be found by clicking on "Homestead Credit" located under "Tax Benefits" on the DOR individual tax site at:

<http://www.dor.state.wi.us/html/indiv.html>

**FEDERAL CHILD TAX CREDIT**

Eligible taxpayers may be able to obtain a federal Child Tax Credit for each dependent child under age 17. Details of filing for this 2005 tax credit and how certain Hurricane Katrina victims who lived in their home in the Hurricane Katrina disaster area on August 25, 2005, might possibly obtain an additional child tax credit can be found through publication/form links at IRS Website:

<http://www.irs.gov/newsroom/article/0,,id=106182,00.html>.

**FEDERAL INTERNAL REVENUE SERVICE EITC CERTIFICATION TEST**

The IRS is continuing an EITC certification test project that involves only 25,000 people nationwide who claimed the federal earned income tax credit (EITC) in 2004 to provide documentation to support their claim. Persons were randomly selected across the nation and the IRS reports that their notification letters went out to all selected individuals in October 2005 and reminders were forwarded in November 2005. This project will not affect individuals who did not claim the earned income tax credit last year. Any affected individuals will be informed what specific documentation they must provide directly to the IRS. Those who received but misplaced these notification letters should contact their local IRS office for guidance. The nearest IRS office can be found by calling 1 800 829-1040.

**TAX REFUND INTERCEPT BY FEDERAL IRS AND/OR WISCONSIN DOR**

Any person receiving a tax refund who owes back taxes, unpaid child support, unpaid parking tickets or other government fees should be made aware that they can have their tax refunds reduced or eliminated due to these outstanding debts.

**FREE LOW INCOME TAX ASSISTANCE SITES**

There are Volunteer Income Tax Assistance (VITA) and other free tax preparation sites that can determine eligibility for tax credits and prepare basic tax returns at no cost for low income individuals, individuals with disabilities, non-English speaking tax payers, and the elderly. Many of these sites offer free electronic tax filing which may provide a tax refund within 7 to 10 days after filing, if the taxpayer has a checking or savings account to allow electronic deposits.

For the location of a local VITA site or to obtain assistance with federal tax questions, a person can call 1-800-829-1040, starting January 16, 2006. Wisconsin VITA site

information can be found by calling any of local State Department of Revenue (DOR) office located at: <http://www.dor.state.wi.us/faqs/ise/address.html>, or by going to the main DOR individual tax information DOR Website at: <http://www.dor.state.wi.us/html/indiv.html> and clicking on "Volunteer Income Tax Assistance (VITA)" under "Tax Help" on this Web page, starting January 16, 2006. The American Association of Retired Persons (AARP) also has free basic tax assistance for low income individuals and the elderly. The nearest AARP Tax-Aide site can be found by clicking on the above DOR VITA Website, by calling AARP at 1 888 227-7669, or by visiting the AARP Website located at: <http://www.aarp.org/money/taxaide/taxpreparation/a2004-01-22-gethelp2003.html>, starting January 16, 2006.

Persons using these free tax assistance sites should call first to see if an appointment is needed and what documents they need to bring for tax return preparation. It is also important to verify if the local free tax assistance site will prepare any amended tax returns to obtain prior year tax credits, if the person was eligible but did not claim them.

### **WORK PROGRAM AND OTHER CASE WORKER REQUIRED ACTIONS**

Financial and Employment Planners (FEPs) and other staff working with program participants need to be aware of these valuable tax credits. They also need to inform their program participants of the value of these tax credits as additional income sources, the location of the federal EITC tax assistant electronic worksheet, and how to obtain free tax question and tax return preparation assistance.

In addition, program participants should be made aware of tax refund intercept used for debt collection and how to use the advance feature of the federal income tax credit noted above. For those who may have received a letter from IRS requiring them to furnish additional information for a previous year EITC claim or who have other tax related questions, please direct them to their IRS notification letter for instructions or to the IRS phone number at 1(800)829-1040, if they have lost their notification letter. Following are two reference Websites that can help provide a wider range of state and/or federal tax related answers and guidance.

Wisconsin DOR Individual's Home Page: <http://www.dor.state.wi.us/html/indiv.html>

Federal IRS Individual's Home Page: <http://www.irs.gov/individuals/index.html>

### **CONTACTS**

BHCE CARES Information & Problem Resolution Center

★Program Categories – FS – Food Stamps, MA – Medicaid, SC – Senior Care, CTS – Caretaker Supplement, CC – Child Care, W-2 – Wisconsin Works, FSET – Food Stamp Employment and Training, CF – Children First, EA – Emergency Assistance, JAL – Job Access Loan, JC - Job Center Programs, RAP – Refugee Assistance Program, WtW – Welfare to Work, WIA – Wisconsin Investment Act, Other EP – Other Employment Programs.

DWD/DWS/BW2/BP